

Before the
Federal Communications Commission
Washington, D.C. 20554

In the Matter of)	
)	
Application by Verizon for Authorization)	
Under Section 271 of the Communications)	
Act to Provide In-Region, InterLATA)	WC Docket No. 02-214
Services in the State of Virginia)	
_____)	

**REPLY COMMENTS OF WORLDCOM, INC. ON THE
APPLICATION BY VERIZON FOR AUTHORIZATION TO
PROVIDE IN-REGION, INTERLATA SERVICES IN VIRGINIA**

The intervening weeks since WorldCom filed its initial Comments have only underscored the importance of the arguments WorldCom made there. Verizon applied for section 271 authorization without first complying with the requirements of the checklist based on a promise that it would soon enter an interconnection agreement that fulfilled those requirements. It is now clear that Verizon will not promptly fulfill its promise by signing a new interconnection agreement with WorldCom, much less demonstrate that it is operationally able to fulfill all the terms of such an agreement. Moreover, Verizon's UNE rates remain far too high, with clear TELRIC errors resulting from remarkably high switch features costs, along with the other problems set forth in WorldCom's initial Comments. All of these issues must be remedied before section 271 authorization will be appropriate for Virginia.

I. VERIZON HAS NOT AGREED TO AN INTERCONNECTION AGREEMENT IMPLEMENTING THE COMMISSION'S NON-PRICING ARBITRATION DECISION

In its non-pricing Order in the Virginia Arbitration, this Commission determined that

Verizon must include numerous items in its interconnection agreements that it had not previously included. Provision of these basic items was necessary to bring Verizon into compliance with the Communications Act as interpreted by the Commission in its existing rules. Because these items related to interconnection, unbundled loops, unbundled transport and OSS, provision of these items was also necessary to meet the requirements of the section 271 checklist. Although Verizon did not provide these items at the time it filed this application, Verizon argued that it would soon include them in its interconnection agreements.

Verizon has now made clear that the very premise of its application was false. Verizon has expressly asserted that it will not sign an interconnection agreement implementing the Commission's non-pricing arbitration order as a matter of course. Since WorldCom filed its initial Comments, Verizon and WorldCom worked out the details of an interconnection agreement that would implement the requirements of the Commission's non-pricing arbitration decision. But in a letter submitted on September 3 – the same day the agreement was submitted to the Commission, Verizon stated that it reserves the right to refuse to sign the new agreement altogether unless WorldCom agrees to language that is both factually incorrect, and inconsistent with otherwise applicable bankruptcy law. In other words, Verizon is refusing to enter an agreement that is indisputably necessary to comply with the Act, including the requirements of the section 271 checklist.

In its initial Comments, WorldCom explained that Verizon was deliberately flouting the strictures of the complete-when-filed rule by filing an application before it had entered the interconnection agreements that it knew to be necessary to comply with the Act. WorldCom also warned that Verizon would continue to make every effort to delay implementation of a new

agreement, just as it had delayed for years negotiation of that agreement. In particular, we explained that Verizon had already sought reconsideration of the Commission's decision in its non-pricing arbitration Order and would almost certainly appeal. Now it is clear that Verizon will not even agree to sign a new agreement without a further struggle.

As a precondition of entering the new interconnection agreement, Verizon demands that WorldCom include language stating:

that the agreement is an amendment, extension and restatement of the existing interconnection agreement between the parties; that the final interconnection agreement is not intended to be, nor shall it be construed to create, a novation or accord and satisfaction with respect to the existing interconnection agreement; and that all monetary obligations of the parties to one another under the existing interconnection agreement shall remain in full force and effect and shall constitute monetary obligations of the parties under the amended agreement (provided, however, that nothing contained in the amended interconnection agreement shall convert any claim or debt that would otherwise constitute a prepetition claim or debt in WorldCom's bankruptcy case into a postpetition claim or debt).

Verizon apparently believes that by labeling the new interconnection agreement an amendment, it will be able to demand that WorldCom pay Verizon any pre-petition debts that WorldCom owed under the old agreement. Verizon's attempt to force WorldCom to agree to terms that it believes will help it in the Bankruptcy Court is preposterous. The Act does not permit Verizon to refuse to enter an interconnection agreement on any basis – much less allow it to condition its decision to enter into an interconnection agreement on a demand that language be included that is inconsistent with otherwise applicable bankruptcy law. Moreover, Verizon's factual premise is also incorrect. It is common practice that when an ILEC and CLEC negotiate an interconnection agreement, the agreement is treated as a new interconnection agreement, not an amendment to an existing agreement. That is certainly how the new agreement should be treated here, where the proposed interconnection agreement is different in almost all respects

from the existing agreement.

For purposes of section 271, Verizon's refusal means that even after the Commission orders a new interconnection agreement into effect, Verizon may refuse to comply with the terms of that agreement. Verizon's Virginia application must therefore be rejected not only because Verizon filed for section 271 authorization before altering its interconnection agreements to include a "concrete and specific legal obligation to furnish" all of the items required by the checklist, Maine Order App. D ¶ 5, but also because Verizon may continue to refuse to provide these items to WorldCom.

Moreover, as WorldCom explained in its initial Comments, agreement is only the first step that Verizon must take to come into compliance with the checklist. Verizon must also show it is operationally ready to furnish the items ordered by the Commission, such as customized routing which is necessary for WorldCom to self-provision Operator Services and Directory Assistance. Verizon has not shown it is able to provide these items. WorldCom will not belabor this point here. Suffice it to say that nothing has changed since WorldCom filed its Comments, and given Verizon's refusal even to enter an interconnection agreement, it is even more important that Verizon show that it is ready to provide such items, not just assert it will be able to do so at some future point.

II. VERIZON'S UNE RATES ARE NOT COST-BASED

Verizon's UNE rates are far too high. Indeed, Verizon's non-loop rates are nearly twice as high as the New York non-loop rates and are an outlier when compared to non-loop rates in states around the country. Even Verizon does not suggest that its non-loop rates can be benchmarked against New York rates.

Verizon instead attempts to defend its non-loop rates as reasonable on their own terms – while implicitly acknowledging they are not reasonable by agreeing to a true up. WorldCom has previously shown the rates are not reasonable, however. WorldCom has shown that Verizon’s switching rate is infected by a basic TELRIC error concerning the mix of new and growth discounts. Verizon’s switching rate is infected by other basic TELRIC errors as well, including clearly excessive costs for switch features.

Remarkably, a significant majority of the cost of switch usage in Verizon’s model relates to the cost of switch features alone. But Verizon fails to provide any justification at all for the costs of switch features in its model, which makes it impossible to quantify the magnitude of the error in such costs. Frentrup Decl. ¶ 5 (attached hereto). However, the high cost of switch features relative to the overall usage cost of the switch strongly suggests that the feature charges are indeed excessive. The software costs associated with features are generally far lower than the usage costs that encompass the switch hardware for all basic switching functions. *Id.* ¶ 6. It is possible that the high feature charges result from an incorrect assumption that all 26 available features are used on all lines, but Verizon simply has not met its basic burden of showing how these costs are derived. *Id.* ¶ 7.

There are presumably other basic TELRIC errors that also contribute to the high TELRIC rates. But WorldCom is reluctant to devote too many resources to examining Verizon’s old cost models, when WorldCom already has devoted extensive resources to litigating a new pricing case before this Commission. By far the best resolution of the pricing issues in this application would be for the Commission to set new UNE rates by promptly releasing its arbitration decision. Even if the Commission does not release new rates during the course of resolving this

application, it is vital that it do so soon afterwards. The current rates constitute a significant barrier to competition even with a promised true up to the level of unknown future rates. WorldCom has been waiting years for a new interconnection agreement generally and new UNE rates in particular. It should not have to wait much longer.

In any event, Verizon's application simply cannot be approved with the current rates. The TELRIC cost models WorldCom and AT&T submitted in the Virginia arbitration show that Verizon's non-loop rates (as well as the loop rates) are far in excess of true TELRIC rates. While WorldCom understands the Commission's principle of deference to reasonable state commission decisions in the section 271 context, this principle simply cannot justify approval of a section 271 applications where rates far exceed cost. If a state commission has made a series of "non-basic" TELRIC errors or if costs have dropped significantly since the time of an initial state ratemaking decision, rates can be far in excess of TELRIC when a BOC applies for section 271 without the existence of any glaring error. But the rates would still be so far from TELRIC rates that the Commission could not reasonably conclude the rates are cost-based, as the Act requires. The rates here far exceed TELRIC rates. And here there are basic TELRIC errors that at least partly explain the excessive UNE rates. For both these reasons, Verizon's application must be rejected.¹

¹ Verizon's application must also be rejected because of the billing issues discussed in WorldCom's initial Comments, which have not been corrected in the interim.

CONCLUSION

Verizon's application for Virginia should be denied.

Respectfully submitted,

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Certificate of Service

I, Lonzena Rogers, do hereby certify, that on this twelfth day of September, 2002, I have served a true and correct copy of WorldCom, Inc.'s Reply Comments in WC Docket No. 02-214 electronically or by first-class mail on the following:

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